by Samuel Pizer and Frederick Cutler ☆

U. S. Industry Expands Productive Capacity of Foreign Countries

IN THE postwar years United States firms have increased their direct foreign investments by some $20 billion, nearly three times as much as the value of such investments at the end of 1946. These investments flowing into productive facilities of all kinds have contributed significantly to foreign economic development, and at the same time have helped to expand markets for United States exports and to provide a large share of the essential imports required by the American economy.

The full scope of foreign investment activity is much greater than indicated by the flow of funds from the United States, since these firms utilize for investment and other business purposes the large volume of funds generated internally by the foreign branches and subsidiaries in their day-to-day business, as well as funds secured from capital markets and other external sources in the countries where they operate. To measure all of these investment activities, the Office of Business Economics has initiated an annual survey of the sources and uses of funds of the foreign subsidiaries and branches of United States companies. This article summarizes the results of the first survey.

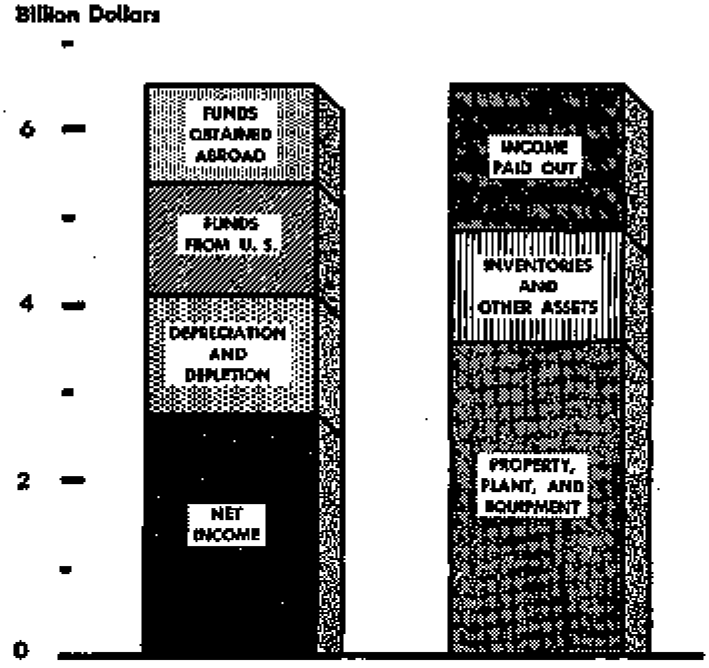
Standing out in the results is the fact that the foreign enterprises covered, representing about four-fifths of the total for all United States direct foreign investments, had aggregate funds available for use in operations in 1957 of $6½ billion. Net income of the enterprises was $2¾ billion, just over two-fifths of the total available, and of this, $1.7 billion was paid out as dividends and profits, leaving $1.1 billion of earnings retained for use abroad.

In addition to retained earnings, about $1.3 billion of net financing was provided from the United States in 1957. About $1.1 billion was obtained from net foreign financing, representing amounts obtained from capital markets and creditors in countries where the enterprises operated and, to some extent, financing obtained from other foreign countries. Depreciation charges on the fixed assets of the foreign concerns and miscellaneous sources yielded $1.3 billion. Of the total of $6½ billion available, therefore, $4.8 billion was disposed of abroad, largely for property, plant and equipment.

While 1957 was a record year for direct-investment capital flows from the United States, it was typical insofar as it showed the importance of the reinvestment of funds generated by the enterprises in their operations abroad. Utilizing these funds, together with capital flows from the United States, American companies are providing a substantial share of industrial capital expansion in many countries.

U. S. Direct Foreign Investments

Sources and Uses of Funds, 1957



Note.- Data for reporting companies only

U. S. Department of Commerce, Office of Business Economics 58-1-9

New data on investment and financing

Data collected in this survey for the calendar year 1957 provide numerous new insights into the operations of direct foreign investment enterprises, especially with respect to the availability of funds generated as depreciation charges or obtained from foreign sources, and the expenditure of funds for property, plant and equipment, inventories or other purposes. Such information is related to, but broader than, the data collected on a quarterly basis for use in our regular balance-of-payments accounts.

As the survey of financial flows is carried forward annually in the future, it will provide data on changes in the magnitude and composition of these flows which will supplement the data on the net private capital movement from the United States, and provide a better basis for understanding the participation of these enterprises in economic developments in the United States and abroad.

In particular, plant and equipment expenditures and changes in inventories of United States controlled foreign enterprises are much more satisfactory measures of their

NOTE.—MR. PIZER AND MR. CUTLER ARE MEMBERS OF THE BALANCE OF PAYMENTS DIVISION, OFFICE OF BUSINESS ECONOMICS.

investment activity than the series on net capital flows, and will therefore tie in more closely with similar data on capital formation available here and in foreign countries.

A number of new terms and methodological procedures used in developing these statistics are discussed in the technical note at the end of this report. The data presented are based on a sample of relatively large companies, covering about four-fifths of the earnings of all direct foreign investments in the industries covered. Although the degree of coverage is reasonably uniform in the major area-industry groupings, there are some important variations, as shown in the technical note. These data have not been expanded into estimates of the totals for all such direct-investment enterprises, pending the availability of the complete data collected as part of the *Survey of American Business Investments in Foreign Countries*, which is now in progress.

SOURCES OF FUNDS UTILIZED

Funds available to foreign subsidiaries and branches of United States companies are derived from four principal sources: net income, depreciation and other cash charges against income, United States parent companies or other United States sources, and foreign creditors or stockholders. Total funds derived from these sources by the reporting companies amounted to $6¾ billion in 1957.

Net income is the largest source of funds of the foreign investment enterprises, aggregating $2¾ billion, or two-fifths of the total covered in this survey. After deducting remitted dividends and profits of the enterprises, amounting to $1.7 billion, about $1.1 billion was available for use abroad. This is larger than the balance-of-payments series for undistributed profits of the same group of companies, since about $185 million of branch profits were reported in the new series as retained abroad, while the balance-of-payments series covers only the undistributed profits of foreign subsidiaries. The present series also includes the equity of foreign stockholders in undistributed profits.

The difference in the data on retained earnings is primarily in the petroleum industry, where branch organizations are most important. In the new series retained earnings of this industry as shown are considerably larger than those of manufacturing enterprises, which lead when undistributed subsidiary profits are considered alone.

Flow of funds from United States

Funds provided to the foreign enterprises by their United States parents were a little over $1 billion in 1957, and an additional amount of about $280 million came from nonaffiliated United States sources. Use of parent company financing varied greatly among areas and industries, accounting for over 30 percent of the total for Latin America, but only about 7 percent for other areas combined. This distribution results largely from the relatively high ratio of 18 percent for the petroleum industry which is most important in Latin America, while the ratio for other industries combined was about 12 percent.

Funds from nonaffiliated United States residents were significant only for the Canadian petroleum and manufacturing enterprises, many of which have a large part of their equity securities and long-term debt distributed widely in the United States.

While the data collected for balance-of-payments purposes have provided measures of retained earnings and net capital outflows from the United States, the new series shows that nearly 40 percent of the total funds available are derived from foreign financing and depreciation charges. Foreign debt financing aggregated about $1 billion in 1957, representing mainly current accounts payable and accrued liabilities such as those for taxes and employee benefit funds. Equity financing from foreign sources amounted to about $100 million, and was sizable only for a few companies in Canada and Latin America. However, the sample companies did not include a number of newly organized European enterprises in which there was foreign equity participation.

Although there is no necessary or traceable connection between specific sources and uses of funds, the data indicate that the substantial amounts of foreign financing utilized in the various industries were similar in amount to the overall net increases in inventories and current receivables reported by each of these industries, but there is much variation among areas. In Latin America the need for funds for these purposes appeared to exceed the amounts of foreign financing available, except for public utilities. In Canada and Europe foreign financing generally exceeded requirements for working capital. Foreign financing for the petroleum industry in "other areas" includes a considerable amount of financing from affiliated companies operating elsewhere abroad.

The survey data indicate that, in general, the companies tend to utilize local financing to finance local-currency requirements, especially for working capital, although in some areas their ability to do this is limited by the meagerness of local capital sources and the resulting high interest rates.

Depreciation and depletion charges are the largest internal source of funds of the controlled foreign enterprises, totaling $1.2 billion for the sample covered in this survey. How-

Table 1.—Pattern of Financing U. S. Direct Foreign Investments, 1957

[Percent distribution]

By Area	Canada	Latin American Republics	Europe	Other areas	All areas
Sources of Funds:					
Net income	37	40	35	59	42
Net U. S. financing [1]	25	31	15	−2	20
Net foreign financing	11	12	28	24	17
Depreciation and depletion [2]	27	17	22	19	21
Total	100	100	100	100	100
Uses of Funds:					
Property, plant, and equipment	73	54	54	35	55
Inventories	7	9	10	8	10
Current receivables	−2	7	11	9	6
Other assets	3	6	(3)	7	4
Income paid out	19	24	20	41	25
Total	100	100	100	100	100
By Industry	**Mining and smelting**	**Petroleum**	**Manufacturing**	**Other industries [4]**	**All industries**
Sources of Funds:					
Net income	60	42	40	43	42
Net U. S. financing [1]	10	21	19	12	20
Net foreign financing	7	18	17	23	17
Depreciation and depletion [2]	23	19	24	22	21
Total	100	100	100	100	100
Uses of Funds:					
Property, plant, and equipment	59	52	60	51	55
Inventories	7	9	12	12	10
Current receivables	----	7	4	10	6
Other assets	8	4	2	7	4
Income paid out	26	28	22	20	25
Total	100	100	100	100	100

1. Includes funds from parent companies and nonaffiliated U. S. residents.
2. Includes a minor amount for other sources.
3. Less than ½ of 1 percent.
4. Agriculture, public utilities, and trade.

Note.—Based on reports of sample companies.

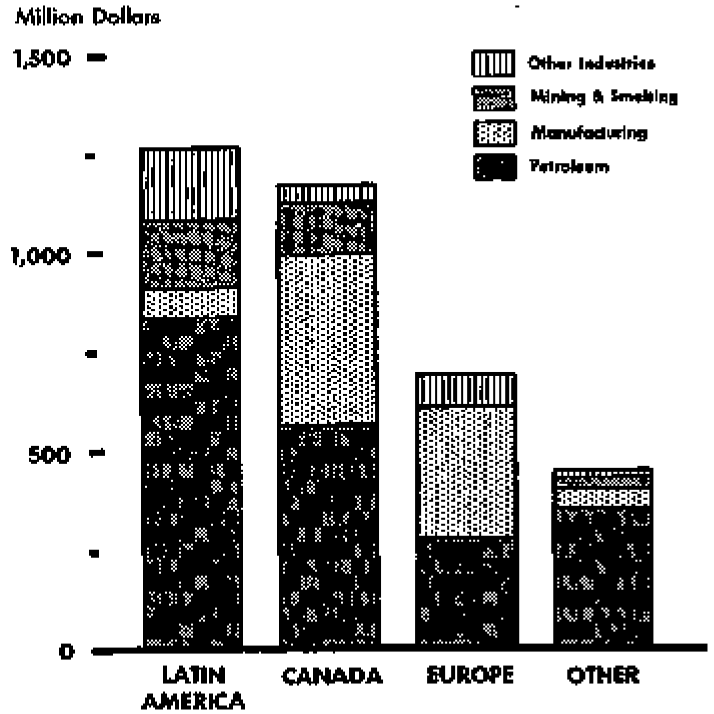
Source: U. S. Department of Commerce, Office of Business Economics.

ever, these charges provide only about one-quarter of total sources of funds (net of income distributions) for foreign enterprises against a proportion of nearly 50 percent for domestic corporations in 1957, and about one-third for the 1950–57 period.[1] This difference could result from a number of factors, such as markedly different depreciation rates, or the ability of the foreign enterprises to draw on parent company funds, but further studies of the balance sheets of the foreign enterprises and data for a longer period will be necessary in order to determine the factors involved. As in the case of domestic corporate financing, however, this source of funds is of growing importance.

About half of the depreciation charges reported in this survey originate in the petroleum industry, although they account for a larger proportion of total sources of funds for other industries covered. Manufacturing operations abroad are not so completely covered as the petroleum industry in

U. S. Direct Foreign Investments

Plant and Equipment Expenditures, 1957



Note.— Data for reporting companies only

U. S. Department of Commerce, Office of Business Economics 59-1-10

this survey, and it is likely that for manufacturing in particular the data given here substantially understate the magnitude of depreciation charges.

For the petroleum industry, depreciation charges were high relative to the book value of investment at the end of 1957 in Western Europe, where refineries and other fixed assets form a large part of the total investment, and were somewhat lower in the areas where other operations of the industry predominate. Depreciation charges in the manufacturing industry were also high relative to the book value of investment in Europe, probably reflecting the fact that enterprises in this area require more plant and equipment than in those areas where the manufacturing activity is largely assembling or packaging. Conversely, depreciation charges for manufacturing in Latin America were relatively low, probably reflecting the lowered dollar equivalent of foreign-currency depreciation charges as well as a relatively low proportion of fixed capital.

Depletion charges, reported as carried on the books of the foreign enterprises, were about $50 million in 1957, nearly all in the petroleum industry. This amount, however, is not comparable to the amount allowable for tax purposes in the United States.

Comparison with domestic corporations

In order to gain some perspective on the magnitudes and relationships of the various sources of funds available to direct foreign investments, they may be compared with similar data for United States corporations. For the foreign enterprises covered in this survey, total funds available, after deducting income remittances, were $4.9 billion in 1957, which is equal to about 12 percent of the total sources of funds for United States corporations. For manufacturing and mining alone (including petroleum activities), the proportion was about 20 percent for 1957.

Domestic corporations derived 70 percent of their funds from internal sources (retained profits and depreciation) in 1957, and most of the remainder from increased long-term debt. The foreign enterprises derived about half their funds from such internal sources, but if funds from the parent company are regarded as coming from an internal source the proportion rises to about three quarters. From the point of view of the parent companies, funds they provide to the foreign enterprises are very largely generated from internal sources; from the point of view of the foreign enterprise and the host country they would be considered external.

PURPOSES OF FUNDS USED

About three-quarters of the funds available to the foreign enterprises (after income distributions) were used in 1957 to acquire property, plant, and equipment. This proportion appears to be close to that for domestic corporations.

About $3.2 billion of the reported foreign capital expenditures originate in the mining, manufacturing, and petroleum industries, compared with a total of $17 billion for domestic plant and equipment expenditures in the manufacturing and mining industries (including petroleum) in 1957. Thus, these data clearly indicate that a significant share of the overall expansion of productive facilities by United States industry in 1957 was in foreigh operations. Similar data for Canada show that companies covered in this survey account for roughly half of all mining and manufacturing capital expenditures in that country.

Petroleum expenditures large

The petroleum industry reported foreign plant and equipment expenditures of $2 billion in 1957, not including $350 million of exploration and development expenditures charged against income. Over $800 million was expended in Latin America, including more than $600 million in Venezuela and a substantial amount in Peru. This total was unusually high in 1957 because of special payments of about $325 million for new leases in Venezuela.

Capital outlays by the petroleum enterprises in Canada were nearly $600 million, with pipeline construction accounting for a major portion. Exploration and development in Canada required a further expenditure of $140 million charged against income. In Europe, this industry's plant

1. See SURVEY OF CURRENT BUSINESS, October 1958—p. 18.

and equipment expenditures were sizable in the United Kingdom, France, and Germany.

Plant and equipment expenditures abroad by manufacturing enterprises controlled in the United States were reported by the sample companies at nearly $900 million in 1957, and the total for all such companies would be well over $1 billion.

Nearly half of this was in Canada and about 40 percent in Europe, mainly in the United Kingdom. In both of these areas the total outlay for manufacturing plant and equipment was substantially larger in 1957 than indicated by the data for net capital flows from the United States and undistributed earnings. The situation was quite different in Latin America, however, where parent company funds are used to a greater extent to provide working capital. Capital expenditures for manufacturing in Brazil made up nearly half of the total for this area.

Although plant and equipment expenditures reported by other industries were comparatively small, they show capital investment to be considerably higher than suggested by the less complete figures previously available.

Additions to working capital in the form of inventories and current accounts receivable absorbed about $1 billion of the funds available to foreign subsidiaries and branches in 1957. As noted above, the necessary funds were probably obtained largely within foreign countries.

Expansion of both inventories and current receivables was large in Latin America, and occurred in several industries. The increase in petroleum inventories probably reflected an imbalance between productive capacity and export demand after the Suez crisis. Increases in receivables in the manufacturing and distribution industries reflected their growing scale of operations and to some degree inflationary developments in many of these countries.

In Canada, the reduction in the level of business activity which began about mid-1957 was reflected in the comparatively small accumulation of inventories by companies reporting in the survey, and a net reduction of current receivables, largely by the manufacturing companies. The substantial growth of current assets in Europe in 1957 was related to generally satisfactory business conditions.

Remittances of income

Dividends and remitted branch profits amounted to $1.7 billion for the companies covered, representing about 60 percent of their net earnings. The proportion of earnings paid out was about the same as that for domestic corporations in 1957, although the domestic ratio was unusually high in that year.

Income paid out by the petroleum industry accounted for 65 percent of total remittances, and manufacturing for nearly 20 percent. The relatively high ratio of income paid out to total income of the petroleum industry resulted in part from the prevalence of branch organizations; some of the remitted branch profits were soon reinvested abroad and were recorded at that time as net funds from the parent. Nevertheless, the total of about $540 million of earnings reported as retained abroad by the petroleum industry was much larger than the amount for any other industry.

When compared with overall uses of funds by the foreign enterprises, the remittance of earnings, although large, represents only about one-quarter of the total. Funds used for income remittances were less than half the amount spent for new fixed assets, and not much higher than the amounts

Table 2.—Sources and Uses of Funds of U. S. Direct Foreign Investments in 1957, by Area and Industry

[Millions of dollars]

Areas and industries	Sources of funds						Uses of funds						Addendum
	Total sources	Net income	Net U. S. financing	Net foreign financing	Depreciation and depletion	Other	Total uses	Property, plant, and equipment	Inventories	Current receivables	Other assets	Income paid out	Exploration and development expenditures[1]
All areas, total	6,521	2,759	1,295	1,122	1,226	119	6,521	3,585	425	391	283	1,658	361
Mining and smelting	547	272	103	38	130	4	547	323	38	1	40	139	9
Petroleum	3,872	1,616	637	697	840	83	3,872	2,036	347	263	158	1,071	352
Manufacturing	1,464	589	276	242	344	14	1,464	879	166	61	36	320	----------
Trade	321	167	23	74	56	1	321	130	57	50	18	57	----------
Agriculture and public utilities	317	107	66	71	67	16	317	180	17	16	25	71	----------
Canada, total	1,602	580	401	175	407	30	1,602	1,109	116	−27	52	204	144
Mining and smelting	264	157	4	27	64	2	264	127	33	6	43	68	4
Petroleum	707	147	351	184	154	21	707	567	52	8	11	69	140
Manufacturing	556	238	136	7	171	4	556	428	26	−81	−11	143	----------
Trade	46	29	8	−3	13	----------	46	82	10	−7	6	6	----------
Agriculture and public utilities	29	8	2	10	5	3	29	15	2	(2)	3	8	----------
Latin American Republics, total	2,330	938	735	275	361	30	2,330	1,202	213	159	183	571	94
Mining and smelting	241	73	100	14	56	(2)	241	171	14	3	2	51	5
Petroleum	1,510	608	500	112	272	14	1,510	838	135	51	66	420	89
Manufacturing	311	75	69	47	25	3	311	75	27	44	33	31	----------
Trade	107	41	12	42	9	3	107	14	23	46	11	12	----------
Agriculture and public utilities	270	89	53	60	58	12	270	104	13	15	21	67	----------
Europe, total	1,285	454	194	336	282	19	1,285	689	195	138	3	261	25
Mining and smelting	1	1	1	−1	(2)	----------	1	1	(2)	(2)	(2)	(2)	----------
Petroleum	567	106	126	163	111	11	567	279	80	90	(2)	118	25
Manufacturing	560	306	66	178	120	9	560	320	95	42	8	109	----------
Trade	137	79	1	29	30	−1	137	83	20	6	−5	33	----------
Agriculture and public utilities	(2)	(2)	(2)	(2)	(2)	----------	(2)	(2)	(2)	(2)	(2)	(2)	----------
Other areas, total	1,295	770	−36	315	206	40	1,295	448	103	120	95	532	99
Mining and smelting	41	36	−3	−3	10	2	41	25	2	−5	(2)	19	1
Petroleum	1,068	638	−41	299	163	37	1,068	851	78	113	61	464	98
Manufacturing	118	66	13	12	26	(2)	118	51	19	6	9	36	----------
Trade	30	19	2	6	4	(2)	30	9	4	5	6	6	----------
Agriculture and public utilities	18	10	3	1	3	(2)	18	10	1	(2)	1	6	----------

1. Includes only amounts charged against income.
2. Less than $500,000.

Note: Detail may not add to totals because of rounding. Data cover only companies reporting in survey.
Source: U. S. Department of Commerce, Office of Business Economics.

required to increase inventories and other current and long-term assets. In fact, depreciation and depletion charges nearly matched income remittances except for the petroleum industry.

A number of companies reported sizable amounts under the category of increases in "other" assets. The total amount was less than $300 million, and over half was reported by petroleum companies. For many of these companies such funds represent advances to, or acquisition of, affiliated enterprises in other countries. The counterpart to these flows appears as a source of funds, usually under the heading of net foreign financing, or as part of "other" sources.

Technical Note

Coverage of the Report: Data included in this report were provided by a sample of 290 United States companies, and represent the accounts of over 1,500 foreign enterprises. The group of reporting companies was selected from those regularly supplying quarterly balance of payments data to the Office of Business Economics, but companies operating abroad principally in the fields of transportation, finance, and various services were entirely omitted. Reports were prepared by the Office of Business Economics for a few large publicly owned Canadian companies which publish the necessary information. The most readily available measure of the coverage obtained, and probably also the best, is the ratio of the earnings of the foreign enterprises covered to the estimated earnings of all United States controlled enterprises in the same area-industry groups. These ratios are shown in the accompanying table.

Ratio of earnings of reporting companies to estimated earnings of all U. S. direct private foreign investments in specified industries

[Percent]

	Listed industries total	Mining and smelting	Petroleum	Manufacturing	Trade	Agriculture and public utilities
All areas	82	69	99	63	69	56
Canada	76	(1)	(1)	59	73	36
Latin American Republics	82	69	95	57	65	61
Europe	85	11	(1)	71	(1)	----------
Other areas	81	35	98	60	35	32

1. In these classifications, the coverage ratio is 100 percent or more because the companies not covered in this survey, on balance, had net losses. This affected particularly petroleum and mining enterprises which were in the development stage of operations. The absolute amounts of net losses involved are not substantial.

Since the various sources and uses of funds are not necessarily proportional to the earnings of the enterprises, it is not possible to expand the sample data to represent the totals for all direct foreign investments. However, the current *Survey of American Business Investments in Foreign Countries* will provide such benchmark totals which can be utilized in future work on this subject.

Foreign Currency Conversions: Data were provided by the reporting companies partly in foreign currencies only, partly in both foreign currencies and dollar equivalents as calculated by the reporters, and partly in dollars only, particularly in cases where the sales of the foreign affiliate are primarily for dollars. Ordinarily balance-sheet items are converted on the basis of the rates prevailing at acquisition dates for fixed assets and related reserves, while current assets and liabilities are converted at the rates prevailing at the balance sheet date—usually a year-end free rate. When exchange rates are changing, the dollar values of these assets and liabilities change during the year, resulting often in unrealized exchange gains or losses from the point of view of the United States parent (and in some circumstances on the foreign books as well) which are usually carried into the profit or loss as calculated by the parent.

In order to avoid the distortion of sources and uses of funds resulting from the changing dollar equivalent of local currency valuations of assets and liabilities, it was necessary in many cases to recalculate the dollar equivalents on the basis of a uniform exchange rate applied to all items. The rate used was generally the monthly average of free rates for 1957. However, recalculations were not made when the conversions made by the reporters did not deviate significantly from this procedure, or for those items where the dollar figures supplied probably represented actual dollar outlays or receipts by the reporter. Where figures were given only in dollars it was usually not possible to determine whether unrealized exchange gains or losses affected the accounts to a significant extent.

While the procedures used are believed to be the best available for the analysis of sources and uses of funds, they would not be appropriate for determining the change in the book values of the foreign enterprises in terms of dollars. However, relatively few countries were undergoing sharply depreciating exchange rates in 1957.

Definitions and Relationship to Balance-of-Payments Accounts: Net income—this is the net income primarily as appearing on the books of the foreign enterprise, after foreign taxes but before any adjustment resulting from unrealized exchange gains or losses. Relatively minor differences from the net earnings figures regularly compiled result from the fact that the new series includes the earnings attributed to minority foreign stockholders (about $200 million), is not reduced by the withholding taxes paid by the parent companies on income transferred, and does not include interest accruing to United States investors.

Net funds from the United States—this amount represents in the case of foreign subsidiaries the net change in liabilities to the United States parent or other United States residents, and cash flows resulting from changes in United States holdings of the capital stock outstanding. In principle this is the same as the net capital flow recorded in the balance-of-payments accounts, although some of the funds reported for nonaffiliated United States residents would not be recorded as direct-investment flows but would appear as short-term or portfolio investments in the balance-of-payments accounts.

In the case of branches, however, the figures in the new series will be lower than the balance-of-payments series to the extent branch earnings were recorded as remitted to the United States rather than retained abroad. In the balance-of-payments accounts, all branch earnings are treated as if they were remitted, and are included in net capital outflows to the extent they are retained abroad. For example, if a foreign branch earns $100 and remits $50, assuming other transactions are nil, the balance-of-payments statistics would show earnings of $100 and net capital outflows from the United States of $50. In the new series, however, the entry for sources of funds would be net earnings of $100, while under uses of funds $50 would appear as remitted branch profits and $50 as increases in assets, with no amount shown as funds from the United States.

Since the reporting companies may differ in their determination of whether a given remittance from a branch represents earnings or a capital inflow, the combined total of retained earnings and net funds from the United States is often a more valid measure of investment from the United States than the figure for net funds from the United States taken alone.

Net foreign financing—this item represents the change in liabilities of the foreign enterprises to other than United States residents, and also any equity investments by foreigners. Included among foreigners are the other foreign branches and subsidiaries of United States companies, so that some of this financing originates ultimately in the United States. It is not possible at this stage to measure the amounts involved, or the extent to which this may result in some duplication in the totals of sources and uses. The net flow from the United States would not be affected.

When the reporting company could not segregate accounts payable between United States and foreign creditors, the amounts were entered entirely under foreign financing. To some extent, therefore, net foreign financing is overstated.

Expenditures for property, plant, and equipment—this item represents primarily the cost of acquisition of new fixed assets, including property or the rights to utilize property as in the case of petroleum concessions. To the extent possible, other changes in fixed assets have been eliminated.

Dividends and remitted profits—in the case of dividends this item represents the amounts declared by the foreign-incorporated enterprises. Such dividends include those accruing to minority stockholders and are before deduction of withholding taxes paid by the United States stockholders, whereas the balance-of-payments figures include only the United States portion, and are after deducting withholding taxes. The branch profit figure is the amount of such profits reported as remitted, although as noted above in connection with "net funds from the United States" this is to some extent an ambiguous concept. In the balance-of-payments accounts, all branch profits are treated as if they were remitted, partly because they are taxable in the United States as earned.

National Income and Corporate Profits

(Continued from page 9)

closing months of the year. By late November output had moved above year-earlier levels, indicating a probable substantial rise in profits. With the introduction of the new models, sales at retail increased—though much of the current output was going to build up dealer stocks. The turnaround in production and sales had not materialized in the third quarter, however, and for this period profits were the lowest in a number of years. With retail inventories of new cars high at midyear and sales continuing slow, production was curtailed early in the summer, and remained at low levels throughout the period of model changeover and the subsequent work stoppages.

The major nondurable-goods groups showed profit gains paralleling the increases which occurred in personal consumption expenditures for their products. With the earlier declines in consumer purchases of clothing largely made good during the summer months, profits in the apparel and textiles industries bettered their year-earlier rates. Food manufacturers' profits recovered after midyear as cost-price relationships improved.

In the rubber industry, profits rose despite the limited demand for use on new cars. The replacement market for tires was little affected by the recession and—due partly to the record number of autos on the road and partly to the rising average age of these—advanced to a new high for 1958 as a whole.

An expanding consumer market also contributed to an improvement of corporate profits in the petroleum refining industry during the summer. Production increased after midyear, and the long and severe inventory adjustment showed signs of ending. However, profits were still a little less than a year earlier, and remained almost one-fourth under the Suez high.

With the recovery of general business, profit gains were likewise recorded in several industries characterized by wide diversification of markets; included in this group were chemicals and paper manufacturing.